



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: March 17, 2023

HCR23-034

SUBJECT: 2022-2023 Procurement of Property Insurance Coverage

COUNCIL DISTRICT(S): Citywide

ORIGINATING DEPARTMENT: Financial Services Department

CONTACT/PHONE NUMBER: Suket Dayal (619) 578-7608

REQUESTED ACTION:

Authorize the San Diego Housing Commission to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,029,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2023, to March 31, 2024.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The Housing Commission currently procures its property insurance coverage from PRISM insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage by its insurance broker, Alliant Insurance Services (Alliant).
- In 1979, 29 California counties, formed PRISM, previously known as the California State Association of Counties Excess Insurance Authority, for the sole purpose of finding cost-effective insurance and risk management solutions. Today, 55 of the 58 counties in California participate. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, public authorities, educational organizations, fire districts, etc.
- Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation.
- More recently, there have been two new factors contributing to the market remaining in a challenging cycle. First, the rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at the PRISM renewal. Second, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined.
- The Housing Commission's five-year loss ratio is attributable to a several major fires and to a number of significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the aforementioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents.
- In February 2023, PRISM provided the Housing Commission with a preliminary premium estimate of \$1,029,000 for the 2023-2024 policy year, a 27 percent increase.
- The proposed funding sources and uses proposed for approval by this action were approved in the Fiscal Year (FY) 2023 Housing Authority-approved Budget.



REPORT

DATE ISSUED: March 10, 2023

REPORT NO: HCR23-034

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of March 17, 2023

SUBJECT: 2022-2023 Procurement of Property Insurance Coverage

COUNCIL DISTRICT: Citywide

Advance notice of San Diego Housing Commission hearing of the following matter has been provided to the Housing Authority Members pursuant to the provisions of San Diego Municipal Code Section 98.0301(e)(4)(A)-(B).

REQUESTED ACTION

Authorize the San Diego Housing Commission to procure and bind property insurance coverage from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,029,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2023, to March 31, 2024.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) Board of Commissioners (Board) authorize the procurement and binding of property insurance coverage for the Housing Commission from Public Risk Innovation, Solutions, and Management (PRISM) in an amount not to exceed \$1,029,000 plus 5 percent as a contingency reserve, with effective dates of March 31, 2023, to March 31, 2024.

SUMMARY

The Housing Commission currently procures its property insurance coverage from PRISM insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage by its insurance broker, Alliant Insurance Services (Alliant). The marketing process resulted in five bids received, and PRISM was determined to provide the most comprehensive and lowest price coverage available.

Alliant was re-selected to be the Housing Commission's insurance broker in a comprehensive procurement process in January 2022. As the broker of record for the Housing Commission, Alliant provides support to all facets of brokerage services for the Housing Commission, including the marketing of all lines of insurance coverage, as well as the administrative support and servicing, loss control, and claims managements handling. Alliant ensures that the Housing Commission has the most effective insurance program design, with the broadest terms and conditions, at the most competitive premium available. As the Housing Commission's risk consultant, Alliant is also responsible for keeping the Housing Commission informed of any changes, trends and emerging

risks within the public entity and commercial insurance industry.

In 1979, 29 California counties, formed PRISM, previously known as the California State Association of Counties Excess Insurance Authority, for the sole purpose of finding cost-effective insurance and risk management solutions. Today, 55 of the 58 counties in California participate. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, public authorities, educational organizations, fire districts, etc., tasked with supporting the public.

The Housing Commission has been a long-time member of the PRISM's Property Program, which is one of the largest public entity property placements worldwide, joining in conjunction with San Diego County on June 13, 1993. This group purchase program has been highly successful over the years in providing extremely broad coverage and substantial limits (including more combined California earthquake limits than purchased by any other entity). The PRISM Program is summarized in Table 1 below.

Table 1:

PROPERTY PROGRAM SUMMARY

Program	Public Risk Innovation, Solutions, and Management (PRISM)
Type of Insurance	All Risk, including Flood, Earthquake and Boiler & Machinery
Members	55 of the 58 counties in California and 300 other public entities
Policy Period	March 31, 2022, to March 31, 2023
Excess All Risk Limit	\$600 Million
Total Insured Values	\$90 Billion

Prior to 2017, the property insurance market was in a “soft” market cycle that allowed consumers to take advantage of extremely competitive pricing and expanded terms and conditions. However, beginning in 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims.

As noted in the February 2, 2023, Property Program & Market Update from PRISM CEO Gina Dean (Attachment 1), the property insurance market continues to deliver challenging renewal terms, conditions, and pricing. In 2022, the Property Committee chose to retain the primary \$10M layer which allows them to have more control over renewal pricing. Although still subject to market pricing in the excess layers, they continue to lean on their size, sophistication, and extremely long-term strategic relationships with carriers to obtain better renewals than would be offered to a stand-alone entity.

As previously mentioned, the market has been in an unprecedented hard cycle since 2017. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of

profitability, and inflation.

More recently, there have been two new factors contributing to the market remaining in this challenging cycle. First, treaty reinsurance pricing has significantly increased. Treaty reinsurance is purchased by nearly all carriers and protects them from claims at their company’s level. The rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at the PRISM renewal. Second, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. Current estimates of the losses to the industry from California alone is over one billion dollars.

In February 2023, PRISM provided the Housing Commission with a preliminary premium estimate of \$1,029,000 for the 2023-2024 policy year. The 27 percent premium increase directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV) and the Housing Commission’s claims experience.

Businesses, organizations and public entities with commercial property and liability policies are expected to maintain adequate loss ratios. Otherwise, they may face premium increases and cancellations. To determine if and for what amount a premium increase is warranted, carriers review claims history and loss ratios for the current year plus the past five years. In general, for PRISM’s Property Program, loss ratio below 55 percent means low future risk. Loss ratio above 55 percent means high future risk. The Housing Commission’s five-year loss ratio is 99 percent; therefore, the Housing Commission is considered to be a high-risk entity. The growing total insured values and rate/loss ratios are summarized in Table 2 and Table 3 below.

Table 2:

INCREASE OF TOTAL INSURED VALUES SUMMARY

	2022 - 2023	2023 – 2024*	Change
Housing Commission's Total Insured Values	\$450.2 M	\$484.8M	\$34.6M
PRISM’s Total Insured Values	\$80 B	\$90 B	\$10 B

**Values as of 11.22.2022*

Table 3:

CURRENT YEAR + FIVE YEAR RATE/LOSS RATIO SUMMARY

Policy year	Premium	Claim	Difference	Loss ratio
2017 - 2018	289,092	375,724	(86,633)	130%
2018 - 2019	298,963	0	298,963	0%
2019 - 2020	341,991	445,033	(103,042)	130%
2020 - 2021	429,320	269,013	160,307	63%
2021 - 2022	720,226	1,570,404	(850,178)	218%
2022 - 2023	809,897	200,000*	609,897	25%*
5-Year Total	\$2,889,488	\$2,860,174	\$29,317	99%

** Estimate as of 12/31/2022*

The Housing Commission's five-year loss ratio is attributable to a several major fires and to a number of significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the aforementioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents.

In conclusion, the worldwide property market has seen significant natural disasters, including the devastating wildfires that have hit California. California has experienced unprecedented wildfire activity over the past four years including the largest, deadliest, and costliest wildfires in State history. These events have impacted the market's surplus, capacity and available reinsurance, pushing the industry into a hardening market for consumers. This trend is impacting all insurance buyers, including public entities, such as counties, cities and housing authorities, particularly in California.

In 2020, PRISM had its highest-incurred property claims in the program's history. As a result, the PRISM Program increased rates this year, in the range of 18-29 percent. The degree of rate increase to each individual member will vary within an established range dependent upon the entity's claims experience. Member allocation also takes into account the unique exposures of each entity, including the types of property being insured and exposure to natural catastrophes. Members with minimal or no losses in the past five years can expect to be on the lower end of the range. The Housing Commission's average loss ratio is high at 99 percent. As such, the Housing Commission received the proposal on the higher point of the 18-29 percent range at 27 percent.

PRISM's Property Program size is an advantage. A positive for PRISM members is that the size of the program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of its size, PRISM is able to leverage the volume of capacity being purchased to benefit all program members.

As a self-insurance pooling joint powers authority, PRISM is expected to fare better than the market and public agencies trying to endure a hard market on their own. Shopping as an individual entity with large losses is extremely difficult, especially in California.

While PRISM attempts to be conservative with preliminary premium estimates, the number on the estimate is not a not-to-exceed amount. Therefore, Housing Commission staff added 5 percent as a potential contingency reserve because the amount to be approved by the proposed action is defined as a not-to-exceed amount.

PRISM will be providing their final premiums after mid-March 2023. The premiums are not expected to exceed the amounts provided in Table 4 below. However, large catastrophic events or economic downturn prior to the March 31, 2023, renewal could impact the property insurance marketplace, resulting in further hardening of the market and potentially resulting in premiums that vary from this estimate.

Table 4:

	2022 -2023	2023- 2024	Inc. /Dec. (%)
Premium	\$809,897	\$1,029,000	27%
5 percent Contingency Reserve		\$51,450	
Total		\$1,080,450	

FISCAL CONSIDERATIONS

The proposed funding sources and uses proposed for approval by this action were approved in the Fiscal Year (FY) 2023 Housing Authority-approved Budget. Approving this action will not change the FY 2023 Total Budget. Funding sources for the portion of the policy year from July 1, 2023, to March 31, 2024, will be budgeted in FY 2024.

HOUSING COMMISSION STRATEGIC PLAN

This item relates to the Housing Commission Housing Commission Strategic Plan for Fiscal Year (FY) 2022-2024 Core Value: Believe in transparency and being good financial stewards.

EQUAL OPPORTUNITY CONTRACTING AND EQUITY ASSURANCE

PRISM is a nonprofit, member-directed, risk-sharing pool of public agencies and is not subject to the requirement to submit a Workforce Report. PRISM does not discriminate based on race, color, religion, national origin, ancestry, gender, age, medical condition, sexual orientation, marital status, domestic partnership status, physical or mental disabilities, veterans, or any other consideration made unlawful by federal, state, or local laws.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On March 4, 2022, the Housing Commission Board of Commissioners unanimously authorized the Housing Commission to procure and bind property insurance coverage with PRISM for the period of March 31, 2022, to March 31, 2023 (Report No. HCR22-016).

ENVIRONMENTAL REVIEW

The purchase of insurance is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Federal funds constitute a portion of the funding. NEPA approval was obtained from the City of San Diego on July 19, 2022.

March 10, 2023
2023-2024 Procurement of Property Insurance Coverage
Page 6

Respectfully submitted,

Suket Dayal

Suket Dayal
Executive Vice President of
Business Administration and
Chief Financial Officer

Approved by,

Jeff Davis

Jeff Davis
Interim President and Chief Executive Officer
San Diego Housing Commission

Attachment: 2023 Property Program & Market Update

Docket materials are available in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org.



February 2, 2023

To: Property Program Members

From: Gina Dean, CEO

Re: Property Program & Market Update

Better Together - It's still a good time to be in a JPA!

As the property insurance market continues to deliver challenging renewal terms, conditions, and pricing, there is no better time to be a part of PRISM's Property Program. In 2022, the Property Committee chose to retain the primary \$10M layer which allows us to have more control over renewal pricing. Although we are still subject to market pricing in the excess layers, we continue to lean on our size, sophistication, and extremely long-term strategic relationships with carriers to obtain better renewals than would be offered to a stand-alone entity.

As many of you know, the market has been in an unprecedented hard cycle since 2017. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation. Our full descriptions of the history with these challenges can be found in previous memos on the PRISM website.

More recently, there have been two new factors contributing to the market remaining in this challenging cycle. First, treaty reinsurance pricing has significantly increased. Treaty reinsurance is purchased by nearly all carriers and protects them from claims at their company's level. The rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at the PRISM renewal. Secondly, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. Current estimates of the losses to the industry from California alone is over one billion dollars.

We continue to be hopeful that an easier market is in our future, but in the meantime, PRISM will leverage the surplus within the Program and the flexibility of being a pool to provide a Property Program renewal that is superior to what members would achieve individually in the open market.



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Frequently Asked Questions regarding the Property Program:

- **How do losses of others (in the market and in the Program) affect me?**
 - At the market level, large industry-wide losses influence carrier profitability and the general market environment. These catastrophic events generally increase pricing in the market; however, the severe increases are targeted towards those who experienced losses. For example, Hurricane Ian is estimated to result in over \$50 billion of losses to the insurance industry. While this event has perpetuated a challenging market, we are told by underwriters that insureds in Florida can expect 200% rate increases in some instances which is much greater than the expected pricing increases in the PRISM Property Program. In fact, we are told that the frequency and severity of hurricanes in the southeast is causing many carriers to shift natural catastrophe capacity away from wind and towards earthquake which is in our favor.
 - At a Program level, PRISM believes that equity amongst the members is paramount. Each member's coverages, exposures, and loss experience are considered when renewal pricing is offered. Members who have maintained a favorable loss ratio benefit from lower renewal rate increases in the Program than those that have experienced losses. Members with losses benefit from the security of receiving a renewal offering while still achieving renewals more favorable than they would be able to obtain in the open market.
- **Why self-insure the primary layer?** The flexibility of a JPA allowed the Property Committee to consider all options and the best possible program structures to combat the effects of the increased rates offered by carriers. Self-insuring the primary layer of the Program allows PRISM to take control of the primary portion of the program and create a substantial cost savings.
 - **How much will this minimize an increase in rates?** Public entities with natural catastrophe exposure in California can expect pricing increases of 35% – 70% in the open market. PRISM's pool layer, on average, will renew with an estimated flat to 5% rate increase, which translates to an overall Program rate increase of 10% to 20%.
 - **Is there additional risk in self-insuring the primary pool layer?** PRISM will continue to accept risk for up to \$10M per occurrence, per Tower; however, this risk is mitigated by stop loss protection and a strong net position.

- **What advantages does PRISM have over a stand-alone open market placement?**
 - **PRISM's Property Program size is an advantage.** A positive for PRISM members is that the size of the Property Program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of its size, we can leverage the volume of capacity we purchase at the excess levels to benefit all Program members.
 - **Relationship advantages.** PRISM has long-standing relationships with carriers worldwide, which result in better renewal offerings. In recent meetings, two different underwriters noted that PRISM is their longest-standing client, and that is recognized in the amount of capacity offered by those carriers as well as in their pricing. Working together, in good times and challenging times, will result in a more favorable result in the long-term.
 - **Accurate Values.** For over 30 years, PRISM has been proactive about ensuring accurate values are reported by each member through frequent appraisals and annual trending. This historic attention to values has benefited the Program by gaining carrier's confidence which results in better pricing. Within the industry, if carriers do not feel comfortable that values are adequately managed, additional cost is added to account for potentially inaccurate values. Additionally, regular assessment provides stability by avoiding large increases when infrequent appraisals are performed. In some cases outside of PRISM, we are hearing of insureds needing to increase values by 70% which results in massive premium increases.
 - **PRISM ARC (our Captive).** PRISM has always been proactive in managing the Property Program and our approach to making funding decisions. We are one of the few self-insurance groups in the nation that have the size required to form our own captive insurance company. The captive is used to benefit from the increased opportunities for investment income and expanding coverage available within the Program.
 - **Pools have an advantage in challenging markets.** If we have learned from history, we know that JPAs (self-insurance pools) have benefited members in turbulent markets. All members benefit from our flexibility, economies of scale, our leverage in the insurance markets, and our sharing of best practices to help manage risk.

What Can You Do?

PRISM Risk Control wants you to know that you are not alone while managing the multitude of risks facing your agency. Our team of specialists is here to help, whether by providing direct consultation or connecting you with one of our trusted partners. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

We would also like to call your attention to a few services and resources we think you should be taking advantage of:

- PRISM has a grant program designed to help members of the Property Program address property related risks. Members are eligible for up to \$25,000 in matching funds for qualifying expenses. The Property Committee has increased the total grant funds available to approximately \$420,000 for the 2022/23 year. Please reach out to [Risk Control](#) with any inquiries.
- Vacant building related losses have been frequent and costly for PRISM members over the last few years. To assist members in managing this exposure, Risk Control created [best practices](#) for managing vacant buildings. The best practices document also contains a handy checklist for vacant building inspection.
- Membership in PRISM's Property Program includes [appraisal services](#) provided by Alliant Insurance Services every 5 years for properties valued above \$1M and every 10 years for properties valued above \$250k.

